ANNUAL REPORT

YEAR ENDED DECEMBER 31, 1937

NATIONAL BISCUIT COMPANY

NATIONAL BISCUIT COMPANY

449 West Fourteenth Street, New York

To the Stockholders:

Gross sales in 1937 were $101,942,900 compared with $96,758,247 in the year 1936. Net income for 1937 was $11,895,111 compared with $12,640,077 for 1936. The decrease in net income was caused largely by increased costs of raw materials together with increased expense for old age benefit and unemployment compensation taxes.

As indicated by the balance sheet, inventories are comparatively small for the volume of business transacted and the Company does not enter into future commitments in such amount at any time as to affect its position materially.

There has been no change in the Company's policy of providing adequately for depreciation and replacement of buildings and equipment. There was set aside for depreciation $2,855,530 in 1937 compared with $2,704,163 in 1936.

The additions and improvements to plant and equipment during 1937 amounted to $1,442,000. These included an addition to the bakery at Cambridge, Mass., and the modernization of that plant which will be completed early in the spring of 1938. These improvements will make it possible to serve the large New England market more efficiently.

The New York City plant improvements, mentioned in last year's report, are practically completed and are accomplishing the results expected.

The Company makes a large part of the paper cartons used in its business. At the Carton Plant at Marseilles, Illinois, there is being installed new paper board machinery. The old machinery turns out 90 tons in 24 hours, while the new machinery speeds this up to 135 to 150 tons every 24 hours. This additional production of cartons

will decrease costs and effect material savings. The new equipment makes possible production of white patent coated board, the use of which has grown so greatly in recent years that the Company has had to purchase large quantities from outside sources. This new equipment will be ready for operation about March 1st and will cost about $1,400,000.

Plans are under way for an addition to the Shredded Wheat plant located at Welwyn Garden City, England at an estimated cost of $700,000. That plant is now taxed to capacity to handle the present sales volume.

On April 12, 1937, the United States Circuit Court of Appeals for the Third Circuit rendered a favorable decision in our suit against the Kellogg Company for trade-mark infringement and unfair competition. In October the Supreme Court of the United States refused to review that decision. Accordingly, on January 5, 1938, the United States District Court at Wilmington, Delaware, entered a decree enjoining the Kellogg Company from the use of the name "Shredded Wheat" as a trade name for its whole wheat biscuit, and from advertising or offering for sale its product in the form and shape of the Company's biscuit in violation of its trade-mark, and also ordered an accounting for damages and profits.

A favorable decision has also been rendered in the suit brought by the Kellogg Company to cancel the trade-mark registration of "Shredded Wheat" in England. The High Court of Justice, Chancery Division, on December 21, 1937, held that the evidence established that our mark is a valid trade-mark and is registrable. This decision will aid materially in greater development of the Shredded Wheat business in Great Britain.

As a result of continued effort in safety educational work, the number of days lost from industrial accidents was approximately 50% less in 1937 than in 1936. In spite of a general increase in automobile accidents in 1937, the operators of our fleet of over 1,600

automobile trucks maintained the outstanding record established in 1936, in which year total accidents showed a reduction of 78% over a ten-year period.

A brief statement of the way our system of distribution safeguards the Company's quality standards is in order, as the organization that has been developed over the years to make this possible is unique in the food business.

Our 2500 salesmen on an average visit every food store once each week. Orders from the salesmen are sent to the bakeries, which produce only goods which have been ordered by dealers.

Over 96% of the product of our bakeries is delivered by our own trucks to retail food stores. This assures delivery of our merchandise to dealers in a fresh and undamaged condition.

After delivery to the stores our salesmen cooperate with retail dealers in keeping our goods attractively displayed in order that they may be quickly sold and reach customers' tables at the peak of their freshness.

As a result of the painstaking care which is constantly given our products, most dealers and many millions of consumers recognize our brand names and our N. B. C. trade-mark as standing for the highest quality foods in our industry. The red N. B. C. Seal is one of the best known trade-marks in the world.

The acceptance of our goods increases steadily through our sampling, printed advertising, sales programs, the word of mouth advertising of our customers, our 19,000 employees and our 50,000 stockholders and we believe our business will continue to build soundly on its present foundation.

The consolidated balance sheet of the Company at December 31, 1937, and the income and surplus account on the following pages show the financial condition of the Company at the close of its 40th fiscal year.

ROY E. TOMLINSON, *President.*

CONSOLIDATED

ASSETS

	December 31, 1937	December 31, 1936
Cash	$26,416,905.73	$26,154,203.47
U. S. Bonds (Quoted Market 12/31/37—$804,361.15)	757,500.00	757,500.00
Municipal Bonds (N. Y. City) (Quoted Market 12/31/37—$20,110.00) Note: $406,500.00 Principal Amount U. S. and Municipal Bonds deposited for special reasons.	18,500.00	18,500.00
Accounts Receivable	2,523,465.13	2,397,885.02
Raw Materials, Supplies and Finished Product (At Cost or Market, whichever is lower, less Special Inventory Reserve of $1,019,381.51 charged to prior earnings.)	10,169,121.85	8,912,912.62
Total Current Assets	$39,885,492.71	$38,241,001.11
Notes and Mortgages Receivable	154,724.06	103,069.29
Notes and Accounts of Officers and Employees (For Capital Stock Subscriptions)	301,960.00	186,228.12
Company's Capital Stock Purchased for Resale to Employees (Quoted Market 12/31/37—$13,717.00)	12,617.00	374,525.95
Plants, Real Estate, Machinery, Intangibles, etc. (At Cost in Cash or Capital Stock, Less Allowances for Depreciation.)	82,806,222.24	84,219,395.03
Prepaid Expenses and Deferred Charges	861,832.66	854,936.35
Total	$124,022,848.67	$123,979,155.85

BALANCE SHEET

LIABILITIES

	December 31, 1937	December 31, 1936
Accounts Payable (Purchase Invoices, Pay Rolls and other Accruals not due for payment.)	$1,800,482.55	$1,719,170.13
Reserve for Federal and Foreign Income Taxes	4,023,825.57	4,201,479.82
Total Current Liabilities	$5,824,308.12	$5,920,649.95
Insurance and Contingent Reserve	7,696,599.54	7,675,097.12
Capital Stock, Preferred (Par Value $100.00—7% Cumulative) Shares authorized 250,000, issued 248,045	24,804,500.00	24,804,500.00
Capital Stock, Common (Par Value $10.00) Shares authorized 12,000,000, issued 6,289,448	62,894,480.00	62,894,480.00
Earned Surplus	13,146,947.47	13,028,415.24
Capital Surplus	9,656,013.54	9,656,013.54
Total	$124,022,848.67	$123,979,155.85

CONSOLIDATED INCOME AND EARNED SURPLUS
YEAR — 1937

Earnings for the year 1937:		
From Operations	$17,020,106.99	
Other Income, less other deductions	109,495.66	
Total		$17,129,602.65
Less:		
Depreciation . . . . The retired plant items charged direct to operations, which were substantial in the prior year, were of immaterial amount in 1937.	$ 2,855,529.68	
Provision for Federal and Foreign Income Taxes . .	2,378,961.86	5,234,491.54
Net Earnings for the year		$11,895,111.11
Earned Surplus December 31, 1936		$13,028,415.24
Revaluation of Securities		6,929.12
		$24,930,455.47
Less:		
Preferred Dividends Paid	$ 1,735,699.00	
Common Dividends Paid	10,047,809.00	11,783,508.00
Earned Surplus December 31, 1937		$13,146,947.47

NOTE:—No provision made or required for Federal Surtax on Undistributed Profits.

CERTIFICATE OF AUDITORS

The President and Board of Directors,
NATIONAL BISCUIT COMPANY,
New York, N. Y.

We have made an examination of the consolidated balance sheet of the National Biscuit Company and its subsidiary companies as at December 31, 1937, and of the statement of consolidated income and surplus for the year 1937. In connection therewith, we examined or tested accounting records of the parent company and of its subsidiaries and other supporting evidence and obtained information and explanations from officers and employees of the companies; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

In our opinion, based on such examination, the accompanying consolidated balance sheet and related statement of income and surplus fairly present, in accordance with accepted principles of accounting consistently maintained by the companies during the year under review, their consolidated position at December 31, 1937, and the results of their operations for the year.

LYBRAND, ROSS BROS. & MONTGOMERY.

February 4, 1938.

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TRANSFER AGENT

GUARANTY TRUST COMPANY
NEW YORK

REGISTRAR

FIRST NATIONAL BANK
NEW YORK